

**JOINT COMMENTS OF ASSOCIATED INDUSTRIES OF MASSACHUSETTS,
POWEROPTIONS, AND THE ENERGY CONSORTIUM
TO THE ENERGY POLICY REVIEW COMMISSION**

In accordance with St. 2012, c. 209, sec. 41, Associated Industries of Massachusetts, PowerOptions, and The Energy Consortium (“Joint Commenters”) appreciate the opportunity to provide written comments to the Energy Policy Review Commission. Section 41 established the Commission to review the economic and environmental benefits, as well as the economic and electricity cost implications, of energy and electricity policies in the Commonwealth.

The statute requires the Commission to report to the Legislature recommendations on how to: (i) further expand the Commonwealth’s renewable energy portfolio and promote energy-efficiency; (ii) encourage business development and job creation; (iii) reduce the costs associated with energy programs funded, in whole or in part, by the Commonwealth, while maximizing the benefit of these programs; (iv) reduce the cost of electricity for commercial, industrial and residential customers; and (v) increase electricity reliability.

These Joint Comments are the initial views of three organizations that represent a broad range of commercial, industrial and institutional consumers across the Commonwealth. The Joint Commenters have, together and individually, participated for many years in the development of energy policy in Massachusetts and in the region, including participation in many rate proceedings before the Massachusetts Department of Public Utilities.

Associated Industries of Massachusetts (“AIM”) is an organization of

Massachusetts companies representing more than 5,000 employers in both the manufacturing and nonmanufacturing sectors in the Commonwealth. AIM was founded in 1915 and has since sought to advocate positive public policy decisions to promote a vibrant and expanding economy, and retain and expand job opportunities in Massachusetts.¹

PowerOptions, Inc. is a non-profit energy purchasing consortium formed in 1996 for Massachusetts non-profit entities. Its over 500 non-profit members include hospitals and healthcare systems, colleges and universities, community and human service agencies, K-12 public and private schools, museums, as well as municipalities and housing authorities representing approximately 215 MWs of peak load (or about 5% of the competitive load in the state) and 13 million dekatherms of natural gas.

The Energy Consortium (“TEC”) is a non-profit association of commercial, industrial, institutional and government large energy users in Massachusetts and has been focused on energy regulatory matters for over 39 years. It advocates positions that promote fair cost-based energy rates, diversified supplies and reliable service for its member Commenters, their employees and all Massachusetts ratepayers.

These comments address a number of the issues in the statute. The Joint Commenters look forward to the opportunity to review and comment on the Commission’s draft report in the future.

(i) **Further Expanding Renewable Energy and Energy Efficiency in the Commonwealth**

¹ Associated Industries of Massachusetts (AIM) is a member of the Commission. These joint comments should not be taken or construed as AIM’s only comments in regard to the issues before the Commission. AIM may present other comments during the deliberations of the Commission now and in the future.

The Joint Commenters support the expansion of renewable energy and energy efficiency programs in the Commonwealth on terms that are cost-effective, market based and consistent with regional energy dynamics. Ongoing expansion of renewable energy incentives must be market based and rely on proper economic signals that lead to competitive development of these resources rather than direct subsidies and market distortions. This approach minimizes consumer cost and provides more stable and predictable electricity rates. The current regime, while successful in jump-starting a robust clean energy market, has led to significant distribution cost increases (and even greater increases should these programs expand) for customers who have little or no ability to predict or reduce this cost exposure. We support the Energy Policy Review Commission's efforts to quantify the benefits of further expanding renewable energy, including analysis of the cost of renewables and the extent to which the expansion of renewables may reduce price volatility.

The Joint Commenters oppose any further authorization for the procurement of long-term contracts by utilities for renewable generation beyond what has already been provided under current legislation. The requirement under current law that all such contracts should be competitively bid, and not simply negotiated between two parties, was a very important change from the provisions of the Green Communities Act and must be strictly adhered to. Furthermore, to the extent that Massachusetts distribution companies enter into contracts with renewable generators outside of the Commonwealth, we believe the cost of the power should include the cost of transmission. We do not believe that individual New England states, such as Massachusetts, should bear the

burden of paying for new transmission lines required for renewable generation if other New England states have the ability to opt out.

We do not believe a case has been made to justify expansion of the long-term contract obligation of distribution companies for renewables. Long-term contracts by distribution companies are antithetical to the principles which underlay the restructuring of the electric industry and should be only allowed where absolutely necessary to jump-start a technology or clean energy sector. A fundamental premise of restructuring was to shift the long-term market risk of generation investment away from customers and toward investors. Another premise was to get the utilities out of the generation business. The requirement of distribution companies to enter into long-term contracts for renewables is counter to both of these very fundamental premises and should only be imposed in very limited circumstances.

Indeed, the success of the solar incentives indicates that such long-term contracts are unnecessary to meet the Commonwealth's goals. The Solar Carve-Out Renewable Energy Credits ("SRECs") program and the net metering credit ("NMC") regime have fostered a robust competitive and cost-effective market for the development of solar with minimal long-term contracts from utilities. In fact, the solar investments by the utilities required by the Green Communities Act may have been unnecessary given the roughly 250 MWs already achieved to date. The SREC and NMC programs have been successful. The SREC model is market based and must remain so.

These types of creative market solutions should be explored to foster development of renewables without utility long-term contracts. The solar success story is premised on long-term contracts entered into by end use customers, not utilities. Similar types of

deals could be fostered for other renewables as well as the expansion of solar. For example, incentives could be given to aggregators like PowerOptions or others to syndicate groups of end use customers to commit to purchase the output of facilities for integration into their supply arrangements. Technological advancements among competitive suppliers today allow such integration of such resources into a competitively priced firm delivered supply product. Large end users would provide as good or better opportunities for renewable developers to finance their projects than utility companies, be market based and reduce risk to all other consumers.

With regard to promoting energy efficiency, the Joint Commenters believe that the scope of Commonwealth's programs should be expanded without increasing the overall budgets for efficiency. As the region struggles with severe operational issues around peak demand and demand response, and energy providers continue to be challenged to work within the ISO-NE rules and low capacity payments, the Commonwealth should look at cost-effective opportunities within the energy efficiency programs to address these regional issues which are very expensive to all consumers. For example, residential demand response may be more cost-effective than some of the current residential efficiency programs, particularly in conjunction with the Grid Modernization options currently being examined. Greater support for combined heat and power ("CHP") systems, on-site generation and micro-grids, should also be examined as these systems all lead to more efficient use of energy.

(ii) **Encouraging Business Development and Job Creation**

As business representatives, the Joint Commenters fully support the encouragement of business development and job creation in the Commonwealth. We

support the Commonwealth's increased development and innovation of new jobs in the clean energy sector (see Massachusetts Clean Energy Center February 1, 2013 presentation to Commission), but we caution, as we have above with regard to long-term contracts, that renewable energy programs supporting such jobs need to be market based and driven.

(iii) **Reducing Costs Associated with Energy Programs while Maximizing Benefits**

The Joint Commenters believe that transparency regarding the costs of energy programs is critical for several reasons. Transparency demonstrates to customers on a regular basis what they are spending to support renewables and efficiency. Many customers would like to be more engaged and connected to how they can help reduce their own GHG emissions. Transparency may lead to more customers taking part in utility efficiency and other programs.

The Joint Commenters also suggest that the analysis of costs and benefits of the Commonwealth's energy programs should be conducted by an independent third party from outside the region. Such review would be truly impartial to validate the programs' effectiveness.

(iv) **Reducing the Cost of Electricity for Commercial, Industrial and Residential Customers**

The Joint Commenters have a number of thoughts regarding reducing the cost of electricity for utility customers.

We fundamentally believe that utilities need to share the financial risk of serving their customers, and not automatically pass through all their costs of doing business to

ratepayers through reconciliation filings. The utilities' risks are increasingly being shifted to customers, but the customer is not seeing lower prices as a result of taking on more and more risk. For example, through decoupling, utilities have eliminated the regulatory lag experienced through traditional cost of service ratemaking, yet the rate of return remains the same even when interest rates and utility returns go down. Further, under decoupling, a utility can lower costs between rate cases and keep the savings. Through the numerous cost trackers instituted over the last several years, utilities are assured cost recovery on an actual basis with no incentive to reduce or avoid those costs. These reconciliation filings not only increase costs but add to price volatility and are difficult for consumers to predict and budget.

We believe that in the final analysis, a robust and transparent regulatory process focused on ratepayer and system needs for low cost reliable distribution and transmission services is essential. On the energy side, the guiding principle must be a robust competitive marketplace essentially free from intrusions or distortions. A focused regulatory process and a competitive marketplace are essential approaches to cost containment and reliable supply to support economic growth and jobs.

(v) **Increasing Electricity Reliability**

The Joint Commenters believe that in general the transmission and distribution systems are reliable. ISO-NE is tasked with maintaining reliability in the region and over the years it has demonstrated its ability to assure reliable operation of the electric grid.

With regard to the distribution lines, utilities should better maintain their wires and rights-of-ways to avoid storm damage. We have seen extended outages time and time again, which are often related to insufficient maintenance and tree trimming practices.

These outages cost consumers in losses immediately and again later through increased storm damage cost recovery as approved by the DPU.

Again, we thank you for the opportunity to participate in the Energy Policy Review Commission and to provide written comments.

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Dated: May ___, 2013